HIGHWAYS REVOLVING FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

Provincial Auditor Saskatchewan

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AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Highways Revolving Fund as at March 31, 2001 and the statements of operations and accumulated operating surplus/deficit and changes in accumulated net expenditure for the year then ended. The Revolving Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Revolving Fund as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
July 27, 2001

Fred Wendel, CMA, CA
Acting Provincial Auditor

HIGHWAYS REVOLVING FUND
BALANCE SHEET
As At March 31

	2001	2000
ASSETS		
Current:		
Accounts receivable	$ 3,085,306	$ 3,143,870
Inventories	3,394,344	3,269,128
	6,479,650	6,412,998
Non-current:		
Construction materials inventory (Note 5)	262,351	401,290
Construction, maintenance and other equipment (Note 6)	47,381,185	46,101,260
Capital lease vehicles (Note 7)	1,407,079	1,756,112
	49,050,615	48,258,662
	$ 55,530,265	$ 54,671,660
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	$ 3,473,184	$ 2,919,204
Current portion of obligation under capital leases (Note 8)	690,119	689,291
	4,163,303	3,608,495
Non-current liabilities:		
Long-term obligation under capital leases (Note 8)	829,373	999,465
Accumulated net expenditure (Statement 3)	49,566,766	51,531,722
	50,396,139	52,531,187
Fund equity:		
Accumulated operating surplus (deficit) (Statement 2)	970,823	(1,468,022)
	$ 55,530,265	$ 54,671,660

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS/DEFICI
For the Year Ended March 31

	2001 Budget (Note 12)	2001 Actual	2000 Actual
Revenue:			
Equipment Rental	$ 19,815,000	$ 22,315,797	$ 18,447,477
Custom Work and Other	4,015,000	5,273,895	3,700,818
Store Sales & Labour	2,032,000	2,311,650	1,975,304
Total revenue	$ 25,862,000	$ 29,901,342	$ 24,123,599
Expenses:			
Repair	$ 5,342,000	$ 4,959,075	$ 4,755,942
Operating	5,352,000	6,299,757	4,906,003
Amortization	3,818,000	4,636,717	4,147,642
Custom Work	4,000,000	5,167,866	3,397,878
Store Sales & Labour	2,032,000	2,337,062	1,966,578
Direct Overheads	3,694,000	3,503,645	3,565,020
Direct expenses	$ 24,238,000	$ 26,904,122	$ 22,739,063
Gross margin	$ 1,624,000	$ 2,997,220	$ 1,384,536
General Overheads	$ 1,250,000	$ 1,383,459	$ 1,195,431
Net Income from operations	$ 374,000	$ 1,613,761	$ 189,105
Net Loss on Sale of Equipment	(350,000)	(474,916)	(430,891)
Recovery of Prior Years' Deficits - General Revenue Fund	1,300,000	1,300,000	3,200,000
Net Income	$ 1,324,000	$ 2,438,845	$ 2,958,214
Accumulated operating deficit, beginning of year	$ (1,468,022)	$ (1,468,022)	$ (4,426,236)
Accumulated operating surplus (deficit), end of year - to Statement 1	$ (144,022)	$ 970,823	$ (1,468,022)

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
STATEMENT OF CHANGES IN ACCUMULATED NET EXPENDITURE
For the Year Ended March 31

	2001	2000
Financing required for (provided by) operating activities:		
Net income after operating recovery	$ (2,438,845)	$ (2,958,214)
Items not affecting working capital		
- amortization (Note 9)	(4,636,717)	(4,147,642)
- loss on disposal of capital assets	(474,916)	(430,891)
Net decrease in working capital items related to operations (Note 10)	(487,328)	(4,564,985)
	$ (8,037,806)	$ (12,101,732)
Financing required for (provided by) investing activities:		
Decrease in construction materials inventory	(138,939)	$ (182,944)
Purchase of equipment	6,354,913	6,827,996
Proceeds from sale of equipment	(756,033)	(464,632)
	$ 5,459,941	$ 6,180,420
Financing required for financing activities:		
Paydown in obligation under the capital lease	$ 612,909	$ 686,066
Net decrease in financing requirements	$ (1,964,956)	$ (5,235,246)
Accumulated net expenditure, beginning of year	$ 51,531,722	$ 56,766,968
Accumulated net expenditure, end of year - to Statement 1	$ 49,566,766	$ 51,531,722

(See accompanying notes to the financial statements)

HIGHWAYS REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2001

1. Authority and Definition of Reporting Entity

The authority for this Revolving Fund was originally contained in Section 21 of *The Highways Act* and is continued under Section 7 of *The Department of Highways and Transportation Act, 1997.* The purpose of the Revolving Fund is to provide a system of accounting that accumulates the costs of equipment, materials and labour used in the provision of construction and maintenance services. These costs are charged back to the Department and other parties on an equitable basis.

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure and Note 10. The following accounting policies are considered significant:

a) Net Expenditure/(Recovery)

The net expenditure/(recovery) is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from net capital acquisitions, working capital changes and net cash flows from operations.

b) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) working capital advanced by the Minister of Finance as at March 31, 1982 to the Revolving Fund;

ii) the net expenditure/(recovery) for each fiscal year thereafter; and

iii) the book value of assets acquired at no charge from another government agency.

c) Inventories

Inventories are valued at the lower of original cost, as calculated on a moving average basis for each shop, and net realizable value.

d) Amortization

i) Power Equipment

Construction and maintenance equipment over $500 is amortized on a unit of use basis (hours). The amortization rate per hour of use for each item is calculated to allocate the capital cost of that item, less residual value, over the life expectancy of the asset.

Tractors	3,000 to 10,400 hours
Motor Graders	14,000 to 18,000 hours
Heavy Trucks	3,750 to 15,000 hours
Trailers	2,000 to 12,000 hours
Construction Equipment	2,000 to 16,000 hours

ii) Computer Systems

System Development costs over $500 are amortized on a straight-line basis at the rate of 20% per year.

iii) Computer Equipment

Computer Equipment over $500 is amortized on a straight-line basis at the rate of 25% per year.

iv) Capital Lease Vehicles

Capital lease vehicles are amortized on a straight-line basis over the term of the lease. The typical lease term for these units is 6 years. Major additions or modifications made to motor vehicle units leased from the SPMC (a related party) are treated as capital cost additions. The amortization rate per unit of use for each item is calculated to allocate the capital cost of that item. Amortization is calculated on the capital cost additions for a unit, on a straight-line basis over the remaining term of the lease for that unit.

v) Other

Salt storage bins are amortized on a straight-line basis at a rate of 5% per year.

For all other sundry, survey, repair shop, office equipment and furniture, amortization is calculated as follows:

- Items costing $500 or more are amortized on the straight-line basis at a rate of 10% per year.

e) Sales

Sales of the Revolving Fund include the following:

i) Equipment Rental Revenue

The rental rates charged by the Revolving Fund for use of its construction and maintenance equipment are calculated to recover the following Revolving Fund costs:

- amortization
- repair and overhaul
- operating costs of fuel, oil and licence registration and insurance fees; and
- administration costs of the stores and repair depots and Revolving Fund office.

Each of the foregoing components of the rental rate is reviewed annually, revised as required, and approved by Treasury Board.

ii) Custom Work and Other Revenue

The Revolving Fund uses the percentage of completion method to recognize construction revenue on custom work.

For the 2000-2001 fiscal year, other revenues amount to $40,848 and custom work revenues is $5,233,047.

iii) Store Sales and Labour

Store Sales and Labour rates are calculated to recover the Revolving Fund's direct costs. All sales are to the Department of Highways and Transportation.

f) Surcharges

Surcharges levied by the Revolving Fund pursuant to Treasury Board directives are required to be returned to the General Revenue Fund. Any unremitted surcharges are recorded as a liability.

g) Capital Lease Vehicles

Vehicles taken on lease terms which transfer substantially all of the benefits and risks of ownership to the Revolving Fund are accounted for as capital leases.

3. Authorized Financing

Subsection 7(6) of *The Department of Highways and Transportation Act, 1997* specifies that the maximum amount of accumulated net expenditure which may be outstanding at any time will be set by order of the Lieutenant Governor in Council. A maximum amount of $80,000,000 was established in April 1983 and was reduced to $55,000,000 in January 1994 by Order in Council. It was then increased by Order in Council to $60,000,000 in March 1999.

4. Accumulated Operating Surplus or Deficit

Treasury Board controls the operations of the Revolving Fund, in part by monitoring the amount of its accumulated operating surplus/deficit. If the amount falls above or below the limit specified by Treasury Board, management is responsible to present a plan to address the excess surplus/deficit for approval by Treasury Board. Plans may include, but are not limited to, payment of excess surpluses to, or requests for additional funding from, the General Revenue Fund. The limit for the Highways Revolving Fund is $1,000,000.

5. Construction Materials Inventory

The construction materials inventory is an aggregate stockpile that will not be used in one year. The entire inventory has been classified as a non-current asset.

6. Construction, Maintenance and Other Equipment

Details of this equipment are as follows:

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net book value
Power Equipment	$ 74,064,520	$ 31,263,752	$ 42,800,768	$ 41,878,191
Sundry Equipment	13,408,183	9,950,347	3,457,836	3,221,520
Survey Equipment	213,857	205,630	8,227	12,181
Repair Shop Equipment	1,499,057	900,553	598.504	256,173
Office Equipment and Furniture	1,623	831	792	1,207
Computer System	1,100,000	660,000	440,000	660,000
Computer Software	3,627	1,209	2,418	
Computer Equipment	212,600	139,960	72,640	71,988
Total Capital Assets	$ 90,503,467	$ 43,122,282	$ 47,381,185	$46,101,260

Power, sundry and survey equipment, including expenditures which renovate or modify the equipment and result in a corresponding increase in the useful life of the equipment, are capitalized and recorded at cost.

Amortization has been provided for in the amount of $ 3,864,714 in the current year (2000 - $2,929,655).

7. Capital Lease Vehicles

Details of the leased vehicles are as follows:

	2001		
	Cost	Accumulated Amortization	Net Book Value
Balance March 31, 2000	5,175,168	3,419,057	1,756,111
Add: Additions/Depreciation	460,242	772,003	(311,761)
Less: Disposals	1,988,681	1,951,410	37,271
Balance March 31, 2001	3,646,729	2,239,650	1,407,079

Amortization has been provided for in the amount of $ 772,003 in the current year (2000 - $1,217,987).

8. Obligation under Capital Leases

The following is a schedule of future minimum lease payments under a capital lease with SPMC for non-maintenance vehicles together with the present balance of the obligation. The lease agreement effective April 1, 1987 and subsequently amended, allows vehicles to be leased for an initial term of four or six years with an annual bargain renewal option thereafter.

Under the agreement, the Revolving Fund receives replacement vehicles on an ongoing basis from SPMC.

Year ended March 31:

2002	$ 690,119
2003	512,969
2004	362,236
2005	238,142
2006	134,579
2007 - 2009	20,801
Total minimum lease payments	$ 1,958,846
Less: Amount representing interest at rates 8% to 11%	246,873
Executory costs	192,481
	$ 1,519,492
Less: Amount due within one year	690,119
Long term lease obligation	$ 829,373

Interest of $ 121,749 (2000 - $ 100,805) is included in the expenditures of 2001.

9. Expenditures

The Revolving Fund's direct expenses and general expenses are classified as follows:

	2001	2000
Operating Expenses	$16,691,274	$13,287,866
Salaries and benefits	6,729,275	6,227,517
Amortization	4,636,717	4,147,642
Other	230,315	271,469
	$ 28,287,581	$ 23,934,494

10. Net Change in Working Capital Items Related to Operations

	2001	2000
Increase/(decrease) in accounts receivable	$ (58,564)	$ (3,165,744)
Increase in inventories	125,216	162,341
Decrease/(increase) in accounts payable	(553,980)	(1,561,582)
	$ (487,328)	$ (4,564,985)

11. Related Party Transactions

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies,

boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled on normal trade terms. These transactions, and amounts outstanding at year-end, are as follows:

Category (as per Financial Statements)	**2001**	**2000**
Revenue (Department of Highways and Transportation)	$ 24,627,447	$ 20,422,781
Accounts Receivable (Department of Highways and Transportation)	1,688,181	1,833,532
Accounts Receivable (Transportation Partnership Fund)	33,053	20,166
Expenses (Various Crown Corporations)	1,250,678	1,263,627
Capital Lease Principal Payments (Saskatchewan Property Management Corporation)	612,909	686,066

In addition, the Revolving Fund pays Provincial Sales tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

In accordance with established government policy, the Revolving Fund has not been charged with certain costs including occupancy, financing, certain information system support and certain administrative costs. These costs have been absorbed by various departmental appropriations and therefore, no provision for such costs is reflected in these financial statements.

12. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually.

13. Financial Instruments

The Revolving Fund's financial instruments include accounts receivable and accounts payable. Due to their immediate and short-term nature, the fair value of these instruments approximates the carrying value.

The Revolving Fund's financial instruments also include long term obligations under capital leases. The fair value of these obligations approximates the carrying value because the implicit rate of interest inherent in the leases approximates the market rate of interest.

The fair value of the accumulated net expenditure has been omitted because it is not practicable to determine the fair value with sufficient reliability.

14. Commitments

The Revolving Fund is committed to purchasing construction and maintenance equipment and other goods and services valued at $493,586 in 2002.

15. Amount Reported in the Public Accounts

The net financing recovery/(requirement) of the Revolving Fund reported in the Public Accounts is the net income/(loss) of the Revolving Fund adjusted for the differences in accounting policies between the Revolving Fund and the General Revenue Fund.

	2001	2000
Net Income/(Loss)	$ 2,438,845	$ 2,958,214
(Increase) in inventories	(125,216)	(162,342)
Decrease in construction materials inventory	138,939	182,944
(Increase) in construction, maintenance and other equipment	(1,279,925)	(2,957,613)
Decrease in capital lease vehicles	349,033	700,256
Decrease in obligation under capital lease vehicles	(169,264)	(213,540)
Balance Sheet variances between RES and Revolving Fund General Ledger and amounts not included in Public Accounts due to timing	292,220	(216,798)
Net financing recovery/(requirement) reported in public accounts	$ 1,644,632	$ 291,121